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DIRECTORATE OF
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WEEKLY SUMMARY

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(Information as of noon EST, 1 February 1968)

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FAR EAST

Hanoi is portraying the Communist attacks on cities and allied military and civil installations throughout South Vietnam as a major turning point in the struggle. This well-coordinated show of force apparently was designed primarily as a damaging psychological blow against the Saigon government and the US presence rather than as a bid to seize and hold major population centers. The heavy attacks on allied airfields throughout the country probably were intended to set the stage for a major assault in the Khe Sanh - Demilitarized Zone area. Hanoi has claimed that the country-wide assaults have "dangerously scattered" US forces, reduced their defensive capacity, and exposed to attack the "nerve centers" of US power in Vietnam.

The North Koreans appear determined to maintain tensions over the Pueblo seizure at a high level during the Communist offensive in South Vietnam. Hanoi and the National Liberation Front enthusiastically supported Pyongyang's action, claimed that they and the North Koreans share the same battlefront against the "US imperialists," and predicted a "more rapid" defeat for the US in Vietnam if the US "dares to lay a hand on North Korea."

Pyongyang's tactics thus far appear to be based on the assumption that, by holding the Pueblo crew as hostages, it can deter the US from invoking military retaliation and oblige the US to restrain the South Koreans from moves against the North. The North Koreans are also seeking further insurance against US reprisals by conveying assurances that the Pueblo crew is being well treated and by hinting vaguely at their willingness to discuss the issue in the Korean Military Armistice Commission, provided the US refrains from military threats.

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VIETNAM

The unprecedented military offensive during the Communists' self-proclaimed lunar new year cease-fire involved attacks against principal cities and major US bases throughout South Vietnam. According to the Communists' own propaganda, it is part of their long-heralded "general offensive" designed to trigger a "general uprising" among the South Vietnamese people in support of Liberation Front objectives.

The military attacks continued unabated over a three-day period, and although the vigor of the offensive had slackened by 1 February, the Communists still had partial control of four provincial capitals and maintained scattered pockets of resistance throughout the country. In addition, the major threat to Khe Sanh and northern Quang Tri Province continues.

It is unlikely that the current military action is designed to hold any principal towns for extended periods of time. Although the Liberation Radio is portraying the current offensive as an effort to destroy the Thieu government and replace it with one under Communist control, it is doubtful that the Communists foresee an early collapse of the Saigon government. Foreign Communist propaganda is more realistic in calling the offensive a display of military strength that will force the US to recognize and deal with the Front.

There are no signs to date that the Communists have been successful in rallying significant popular support for their "uprising." They undoubtedly have succeeded in shaking civilian confidence in the Saigon government, however, and in inflicting serious setbacks to security and pacification programs throughout the country. Communist propaganda is attempting to give the impression of widespread popular support by citing the establishment of local organizations called "alliances of national and peace forces," which will negotiate with the Liberation Front to set up a new government.

It will probably be some time before the full military extent of the offensive will be known, especially in rural areas. Reports indicate enemy assaults were made against at least 22 provincial capitals and against some 30 to 40 districts headquarters. More than 6,000 Communists have reportedly been killed, and allied forces' casualties now stand at nearly 600 killed (93 US) and over 1,700 wounded (562 US). Damage to allied aircraft and facilities is extensive. In addition, the Communist assaults and the allied reaction to them appear to have taken a heavy toll of civilian casualties.

The Communist offensive had been carefully prepared and coordinated in advance, possibly to take maximum advantage of surprise during the Tet holiday truce period.

In its initial phase, the military action was directed almost exclusively against targets in southern I Corps and II Corps,

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and involved coordinated actions by the Communists' B-3 Front in the highlands and their Military Region 5 command in the coastal provinces.

In addition to mortar and ground attacks on such major bases and headquarters as Da Nang, Chu Lai, and Nha Trang, fighting was particularly bitter at Hoi An, the capital of Quang Nam Province, and at Kontum city in Kontum Province. Allied forces are now reported to be in control of all major II Corps towns except Kontum and Ban Me Thuot, although sporadic contact is still reported in the outskirts of several provincial capitals.

Among the enemy targets in Saigon were the US Embassy, the Presidential Palace, the government radio station, and the Tan Son Nhut military complex. It took US troops about six hours to drive a band of attackers from the US Embassy grounds. The building itself was rocked by several large explosions, but no structural damage was reported, and the embassy is now fully operational. Scattered, sometimes heavy, Viet Cong activity was continuing elsewhere in Saigon at last report.

On 31 January, enemy mortar and ground attacks struck provincial capitals and district towns in the delta and in the two northernmost provinces of I Corps. Attacks were reported in at least eight of the 16 southern delta provinces. On 1 February, fighting was continuing in at least three cities, My Tho in Dinh Tuong, Ben Tre in Kien Hoa, and Chau Phu in Chau Doc Province. In the latter province, the Communists appeared to be still in control of the city.

With the exception of Hue in Thua Thien Province, allied reaction forces apparently have countered the enemy's thrust throughout the northern I Corps area. Elements of a Communist regiment were reported to be in control of important sectors of Hue on 1 February. The area immediately south of the Demilitarized Zone (DMZ), however, still remained relatively quiet. Evidence of a heavy enemy build-up throughout the area of the DMZ continued to be reported.

GVN Declares Martial Law

Saigon's President Thieu responded to the country-wide Viet Cong offensive by declaring a nationwide state of martial law on 31 January. This action temporarily suspends some of the civil rights guaranteed under the constitution and permits the President to govern by decree for 12 days.

Earlier in the week, Thieu had devoted much of his "State of the Union" message to dismissing Communist proposals for peace talks. He rejected any coalition government with the Front, and said that the bombing of North Vietnam could not be stopped unless hostilities ceased in the South. He added, however, that bombing could be decreased by stages in proportion to a Communist decrease in military ground activity in the South.

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CAMBODIA RENEWS CRITICISM OF VIETNAMESE COMMUNISTS

Cambodia's uneasy relations with the Vietnamese Communists appear to be under increasing strain.

Chief of State Sihanouk made one of his sharpest attacks on North Vietnam and the Viet Cong's Liberation Front in an emotional press conference on 27 January. He referred bitterly to recent statements by Hanoi and the Front as "indirect threats" to his regime, and he accused the "Maoist camp" of backing Cambodian Communists in an effort to pressure Phnom Penh to maintain its anti-US posture.

Sihanouk warned the Communists that such tactics would not work and could be dangerously counterproductive. He pointedly raised the specter of a Cambodian government closely tied to the US in order to remind the Communists that he can still exercise options that will be extremely damaging to their interests. In so doing, Sihanouk went much further than he has in the past in publicly acknowledging the extent to which the Vietnamese Communists use Cambodian territory

Sihanouk's outburst was triggered by a recent renewal in western Cambodia of leftist-inspired dissident activity, which has included a number of attacks against small police outposts. Although he admitted that Phnom Penh's evidence is weak, Sihanouk holds both Hanoi and Peking responsible for these activities.

Sihanouk also appears to be reacting to what he apparently regards as the threat posed to Cambodia by the Communists' excessive use of Cambodian territory to prosecute the war in South Vietnam. 25X1

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Although there is speculation in Phnom Penh that a "diplomatic break" is now inevitable, it seems unlikely that Sihanouk will push too hard against the Vietnamese Communists as long as he continues to believe that the Communists will prevail in South Vietnam. He apparently does want, however, to refurbish Cambodia's standing as a neutral in the Vietnam war, even if it causes some short-term problems with the Communists. 25X1

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NORTH KOREA REMAINS UNYIELDING IN PUEBLO CRISIS

The North Koreans show no signs of retreating from the confrontation with the US provoked by their seizure of the Pueblo and its crew.

They appear to be gambling on the assumption that, by holding the crew as hostages, they can deter US military reprisals, force the US to restrain the South Koreans, and prolong the confrontation. Their immediate aim apparently is to maintain diversionary pressures on the US at a high level during the current country-wide Communist offensive in South Vietnam. Over the longer term, Pyongyang probably hopes these tactics will aggravate US - South Korean relations, discredit the Seoul government, and extract valuable concessions from the US.

The North Koreans are continuing the defiant stance they adopted during the Military Armistice Commission meeting on 24 January. In official statements and propaganda, Pyongyang has maintained it acted within its rights as a sovereign state, and that the Pueblo was engaged in hostile activity in North Korean territorial waters. Pyongyang has attempted to document its version of the incident by broadcasting an alleged confession and other statements by the commander of the Pueblo. Moreover, Communist propaganda has attempted to connect the Pueblo with the war in Vietnam. The commander was said to have stated his mission was in preparation for a "new war" of aggression in Asia and that the US regards Korea and Vietnam as "two fronts of the war."

The North Koreans have avoided specifying conditions for the release of the Pueblo and its crew. Pyongyang has, however, repeatedly condemned efforts to involve the UN. A high-ranking North Korean leader complained on 31 January that the US was seeking a solution through "illegal discussions at the United Nations." He went on to observe that "there is a precedent for the treatment of similar cases at the Korean Military Armistice Commission."

This "precedent" probably refers to negotiations at Panmunjom in 1963-64 over the fate of two US helicopter pilots downed in North Korea. In its desire to extract maximum propaganda value from that case, however, Pyongyang kept the negotiations going for 13 months before releasing the pilots.

Despite their militant stand, nothing the North Koreans have done suggests they are about to embark on large-scale hostilities. Their actions have been largely defensive, apparently as a precaution against some retaliatory action by the US or South Korea. Propaganda statements claim that the country is "prepared to counter any provocations or surprise invasion."

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On the diplomatic front, the Soviet Union has supported the North Korean position while treating the incident as a matter to be resolved between the US and North Korea. Moscow's tactics appear designed to minimize the situation and to forestall any possible US military action, while keeping their public record of support for North Korea unassailable. Premier Kosygin reflected this line in his statement to Western reporters in New Delhi, saying that the incident was a violation of territorial waters and should be settled as such by the two countries involved.

The Soviets voted against the matter being brought before the Security Council but have indicated a willingness to have North Korea invited to appear before the council as long as the invitation is unconditional. The Security Council has been stalemated over the issue of inviting North Korea to attend.

Peking's reaction to the Pueblo incident has been relatively restrained and has avoided any specific reference to steps China might take to support Pyongyang. Although the Chinese Government statement on 28 January warned that "US imperialism had forgotten the lesson it was taught in the Korean War," it promised only that the "Chinese Government and people firmly support the just stand" of North Korea. The statement seemed primarily intended to portray the Pueblo's capture as further evidence of US plans to expand the war in Vietnam--a favorite theme of recent Chinese propaganda.

Some South Korean leaders have complained that the US has devoted too much attention to the Pueblo crisis and has played down the issue of North Korean violations of the armistice agreement, particularly the attempt to assassinate President Pak. Seoul is also concerned that Pyongyang may gain status at South Korea's expense, either through an invitation to participate in the UN Security Council debate or by direct US - North Korean negotiations. Another sign of South Korean uneasiness was a suggestion in a Seoul newspaper editorial on 31 January that the government might have to consider withdrawing troops from South Vietnam if the US reduced its forces in the Korean area following a settlement of the Pueblo crisis. 25X1

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FACTIONAL FIGHTING CONTINUES TO PLAGUE COMMUNIST CHINA

Peking is showing increasing concern about factionalism, both within the military establishment and among "revolutionary" organizations in the countryside, but there is as yet no indication that the central leadership has been able to reach a consensus to deal firmly with the problem. Using official propaganda organs, moderate elements continue to stress the damage that factionalism is causing to the country's economic and political fabric. More radical elements, however, seem determined to protect the "revolutionary" Red Guards--the primary source of the trouble--and to keep them active.

Violent and disruptive factional fighting is still being reported from widely scattered parts of China. Although these disorders are sporadic, they appear to be on a fairly large scale and show no signs of abatement. 25X1

Amoy, in Fukien Province, is in a virtual state of anarchy. 25X1 Hainan Island, in Kwantung Province, evidently has been the scene of widespread violence.

The regime has made a special effort to maintain order in the capital city, but violent clashes have broken out several times in Peking in the past few weeks, according to newspaper reports. One hundred persons were reported injured in a clash on 25 January, and on the same day Peking televised the trial of 11 men charged with murder, complicity in murder, and distributing "counterrevolutionary tracts."

Much of this violence continues to be ignored in official regime propaganda, which merely deplores factional disputes in general terms. In the past week, official media have particularly stressed the necessity for the army to avoid factionalism in its own ranks, as well as involvement in disputes among "mass organizations"--a euphemism for Red Guard and other "revolutionary" groups. This line strongly suggests that Peking is becoming increasingly concerned about factionalism already existing within the military as well as the propensity of army commanders to support one or another of the Red Guard factions. 25X1

Hainan Island report that local army forces have been supplying arms as well as offering political support to one faction on the island, while the navy backed an opposing faction. 25X1

Although official propaganda has taken an increasingly stern

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attitude toward the problem of factionalism in the military and among the Red Guards--a Liberation Army Journal editorial on 28 January took a realistic and sober approach to the problem--the Red Guards themselves apparently still operate under a protective umbrella. Recently received Red Guard materials indicate that the militant organizations are continuing their attacks on local military commanders and on established "revolutionary committees" in the provinces.

Moreover, they continue to circulate statements by radical leaders in the capital that appear designed to encourage militancy in the hinterland. A speech given on 12 November by Chiang Ching, Mao's wife, which called upon the Red Guards to "disturb the enemy," has now been distributed throughout the country for "study and guidance" as an official central committee directive. The speech has been widely reproduced in Red Guard newspapers, but has been ignored in the official press.

A further sign of the boldness of the militants was a recent poster attack on the People's Daily--the official organ of the central committee. The paper was lambasted for reproducing in November a photograph that, because of the angle of the camera, showed a Mao quotation upside down. The delay in making this far-fetched charge suggests that the paper came under attack for recent statements condemning militant obstructionism in uncompromising terms. 25X1

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EUROPE

Moscow has poured more cold water on West German hopes to negotiate an exchange of declarations with the USSR renouncing the use of force. In a note delivered this week, the Russians indicated that Bonn would have to go a long way toward recognizing East Germany as the price of such an agreement. The note, in addition to mollifying the East Germans, will test how far Bonn will go in its eagerness for progress on its eastern policy.

Premier Kosygin returned from a six-day visit to India that ended with a promise of more frequent exchanges in a number of fields. The visit was apparently made at Mrs. Gandhi's repeated urgings and was mainly a demonstration of friendship.

Almost all sectors of the Soviet economy performed satisfactorily in 1967, according to the final figures that Moscow has just released. Farm output fell only slightly below the record levels set in 1966 when growing conditions were exceptional. The good economic results were achieved in large part, however, at the sacrifice of investment in new capacity, which is needed to maintain current growth rates.

Yugoslavia and West Germany announced the resumption of diplomatic relations on 31 January, marking an end to the ten-year lapse that began when Belgrade recognized East Germany. Earlier in the week, Yugoslav - West German trade negotiations were suspended, reportedly because of Bonn's failure to liberalize its policy on imports from Yugoslavia. The talks will be resumed in the early spring.

In Denmark, Hilmar Baunsgaard, a leader of the neutralist-tending Radical Liberal Party, is putting together the first non-Socialist cabinet in 15 years. What the new government's position on defense and foreign policy will be is not yet clear. As a result of the lost H bombs, however, it will be under growing public pressure to redefine US rights in Greenland.

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USSR REPORTS CONTINUED ECONOMIC GROWTH IN 1967

Final figures released by Moscow on the USSR's economic performance last year indicate that the regime was able once again to claim relatively satisfactory results in almost all sectors of the economy. As in the recent past, however, these were achieved in large part by sacrificing investment in new capacity essential to maintain current rates of growth.

Industrial output is estimated to have increased at the same rate estimated for 1966. The failure to improve on last year's growth rate is largely ascribable to a marked slowdown in all components of industrial production during the final quarter of 1967. This may have resulted in part from the ending in October of the campaign to honor the 50th anniversary of the revolution with above-plan obligations.

In the important machinery sector, the rate of increase in military and space hardware was appreciably higher than that of the sector as a whole. This difference in growth is indicative of the continued priority accorded the defense establishment following the ouster of Khrushchev. Judging from the 1968 plan and budget, moreover, a continuation of this trend is planned this year.

Agriculture's performance in 1967 failed to match the record level of output produced a year earlier, but the shortfall was minor for most farm products. The chief exception was the crucial grain harvest--down to an estimated 120 million metric tons (mmt) from 140 mmt in 1966. This is still sufficient to meet domestic needs, however, and to provide for a modest export surplus. Meat and dairy products registered impressive increases, but livestock numbers did not rise, and in the case of hogs actually declined. It is possible that available feed supplies may have suffered in the past several years as the farms concentrated on the more profitable bread grains.

Despite the slippage in the industrial growth rate during the last quarter of 1967 there was nevertheless a notable acceleration in the output of agricultural machinery. Although this recovery is considerably below the level required by the Brezhnev program, it is nonetheless the first evidence that the farm sector is receiving more resources. It remains to be seen whether this reversal of the poor performance in the production of farm machinery during the past few years will be sustained.

The Soviet consumer enjoyed further gradual improvement in his standard of living last year. This was partly attributable to the regime's decision to treat the populace to more consumer

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goods during the anniversary year. A major increase in the consumption of better quality foods was made possible by record levels of livestock products. Savings deposits nevertheless rose almost twice as rapidly as the increase in total money income. This is the third year in a row that a considerable increase has occurred in savings, indicating continued latent purchasing power and suppressed inflationary pressures. New housing fell far short of plan, as usual.

As in the recent past, the relatively favorable performance of the Soviet economy last year was in large measure the result of decisions to emphasize the here and now at the expense of future growth. Investment programs in both industry and agriculture showed unimpressive increases, and the completion of new projects was not up to plan in the iron, steel, chemical, and paper industries, among others. Most construction organizations also fell short of their completion goals.

Despite its formal adherence to a number of goals for 1970 that will require extensive new capacity, during 1966-67 the regime has allowed the rate of growth of industrial investment to fall by one third from the already low rates of 1961-65. At the same time, investment in agriculture is growing at a rate roughly half that required under the Brezhnev program for 1966-70. Unless these trends are reversed, the regime runs the risk of not being able to maintain its recently achieved rates of growth. 25X1

NEW CZECHOSLOVAK LEADER CONSOLIDATES POSITION

In less than a month, Czechoslovak party First Secretary Dubcek has taken several steps that will consolidate his position as the new regime leader.

His actions to date have been capped by a meeting with Soviet leaders in Moscow, which both sides have been eager to represent as a success. Dubcek's quick trip to the USSR on 29-30 January, during which he was unaccompanied by any other Czechoslovak official, gave both sides a chance to size up the other and to go into Dubcek's plans for changes in the country's domestic policies. The Soviets may have been somewhat reassured, but must still look on Dubcek's liberalizing experiments with apprehension.

Prague's unusually effusive description of the talks was

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lacking in specifics, but stated that "a full accord of views on all questions discussed" was reached in "an atmosphere of cordial friendship, sincerity, and friendly understanding." The two parties were said to have "exchanged views" on foreign policy questions and the problems of international Communism.

Certain specific problems in bilateral relations probably were set aside for another time and for lower level officials to deal with. On the same day that Dubcek arrived in Moscow, for example, a Soviet delegation wound up nine days of talks in Prague on the question of pricing policy, long a source of friction that has interfered with trade between both states.

Having received at least the tacit acceptance of Soviet leaders, Dubcek probably returned home with confidence in his plans to set Czechoslovakia on a new course and to broaden his base of political support. To mollify critical intellectuals prior to his Moscow trip, he already had allowed the Czechoslovak Writers' Union to elect its own liberal leadership. He has also permitted the union to publish a new weekly journal to replace the one taken away from the union by former party boss Novotny.

While heartened, the intellectuals have not completely relaxed their suspicious attitudes. In contrast to their bitter opposition to Novotny, however, they view Dubcek's election as "the beginning of a process inside the party and society in which writers want to take part."

On 23 January, one of Dubcek's trusted colleagues, Vasil Bilak, was elected to succeed him as first secretary of the Slovak Communist Party. The two apparently achieved a good working relationship while running the Slovak party between 1962 and 1967. The election of Bilak, a Ukrainian, continues the trend started by Dubcek of elevating representatives of national minorities into positions of power. Dubcek, himself a member of the Slovak minority, had already appointed a man of gypsy origin to the party presidium.

These initial changes seem to be having their desired effect. It has been reported, for example, that younger, progressive elements in Czechoslovak society are optimistic that Dubcek's election will result in a genuine break with the past. Whether their optimism is justified or not, their rising expectations that the party's dead hand will be lifted from domestic affairs will generate additional pressure in that direction.

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USSR CONCLUDES TRADE NEGOTIATIONS WITH EASTERN EUROPE

Trade negotiations have recently been concluded between the USSR and each of the Eastern European countries. Despite the increases called for, Eastern Europe's trade with the USSR is not likely to grow as fast as that with the West, partly because they are seeking to acquire the latest technology. Nevertheless, the USSR still is the most important source of raw materials for Eastern Europe and provides a market for a variety of manufactured goods not readily salable elsewhere.

The Soviet Union provides approximately 80 percent of Eastern Europe's imports of basic fuels and raw materials, including crude oil, rolled steel, coal, iron ore, pig iron, and cotton. Deliveries of many of these products are to be increased in 1968. The USSR has warned, however, that Eastern European countries expecting to purchase larger amounts of raw materials from the Soviet Union after 1970 must grant credits to help pay exploitation costs. Some such arrangements have already been concluded. In 1963, five countries extended $49 million in credits to the USSR to assure supplies of phosphorite, and more recently Czechoslovakia agreed to invest $556 million to guarantee oil deliveries.

The USSR also supplies about one third of the machinery and equipment imported by Eastern European countries, including 60 percent of oil-drilling equipment and more than one half of tractor and truck requirements. Soviet grain deliveries furnished about two thirds of Eastern European import requirements from 1960 through 1964, but declined to one half last year, and are expected to remain at about the same level this year.

The Soviet share of Eastern European foreign trade varies markedly from country to country, ranging from 26 percent of Rumania's total trade to 56 percent of Bulgaria's. The Eastern Europeans' collective share of total Soviet trade is currently more than 50 percent. The USSR orders some 75 percent of its imports of machinery and equipment from these countries, principally from East Germany and Czechoslovakia. The bulk of Soviet orders are for rail transport equipment, seagoing and river vessels, and equipment for the food and chemical industries. The current Soviet program to increase the availability of consumer goods at home in part depends on purchases from Eastern Europe, and these imports are slated to increase in 1968.

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The USSR has expressed dissatisfaction with foreign trade prices, but suggestions by Soviet economists to establish a new pricing system have not been acceptable. The USSR contends that under the present system it pays too much for most Eastern European machinery and equipment, and that Soviet raw material exports are priced too low to cover the growing costs of exploitation. [redacted] 25X1

SLIGHT THAW NOTED IN HUNGARIAN ATTITUDE ON US RELATIONS

The Hungarian Foreign Ministry has recently indicated revived interest in negotiating solutions to certain long-standing problems with the US. This is a significant change from the politely negative stance that Hungary adopted after the arrival last November of the first US ambassador to Communist Hungary.

Budapest's initial coolness was designed to minimize the political impact of the increase in the level of US representation and to demonstrate that Hungary's acceptance of the change did not imply a shift in the regime's basic alignment.

The Kadar regime does not want its motives misunderstood by its Communist allies. It has proposed, therefore, to negotiate on topics that have clear precedents and are thus politically "safe." So far, the Hungarians have expressed specific interest in joint economic ventures, a consular treaty, economic claims, and a possible easing of restrictions on the size of the embassy's staff.

In keeping with its apparent desire to minimize US contacts with the Hungarian population, the regime maintains that expanded cultural relations would be politically "dangerous" and has again refused to discuss the matter. The Foreign Ministry also displayed sensitivity to possible publicity arising from any of the proposed negotiations, warning that such publicity could abort the talks.

The Hungarians are being very cautious. Simultaneously with their private approaches to the US, they have in a number of ways publicly underscored their basic alliance with the Soviet Union. Within this context, however, there appears to be room for a gradual and low-key improvement in Budapest's relations with Washington. [redacted] 25X1

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NEW MANEUVERS OVER BRITISH ROLE IN EUROPEAN COMMUNITIES

Various proposals have been made in the continental countries to keep alive Britain's bid for membership in the Communities, but so far none has led to positive results.

The Germans evidently are awaiting the results of Kiesinger's and Brandt's talks with De Gaulle in Paris on 15-16 February before committing themselves to specific proposals. They have suggested, however, that Britain consider joining EURATOM, presumably as an interim step.

Bonn also envisions that the commission would play a role in consulting with the British on their application and in exchanging information.

The Benelux countries have offered a potentially far-reaching "package" plan to break the current stalemate. They proposed that the Six consult with the four applicants--perhaps through something like the existing agreement between the UK and the Coal-Steel Community--on matters covered by Community treaties. Moreover, "joint action" was proposed in fields not directly included in the treaties, such as patents, arms development and production, and technological cooperation. Finally, "other European countries," are invited to participate in political consultations that the Benelux countries are initiating among themselves on foreign policy and other "questions of common interest."

The Benelux plan is not without risks for the Communities. Some of the areas for suggested economic cooperation touch on questions already under Community jurisdiction, and the envisaged political cooperation would be outside such jurisdiction. The effect of the plan thus might be to detract from the Communities. The proposals nevertheless have the advantage of sidestepping the issue of negotiating some form of associate, half-way, or transitional membership which the British have already rejected. Moreover, they conform to British ideas about gaining a foothold in European deliberations as a way of "preparing" for EC accession.

In Brussels this week, Italy and Germany expressed interest in the plan but the Benelux countries were not given a mandate to get discussions started. The emphasis was on possible technological cooperation, and there was apparently little attention given to political cooperation. France was clearly not enthusiastic, but has not flatly opposed the Benelux plan. Couve, however, recently told the Belgian ambassador in Paris that the "time was not ripe" for it.

Meanwhile, the Dutch and Italians have balked at discussions--which were due to begin this week in a Community framework--on technological cooperation, among the Six. The EC Council will discuss in February whether the Commission should pursue its study of "disparities" between the Community and the applicants for membership.

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When the German leaders visit Paris in February, De Gaulle may try to give some content to his suggestion of "possible arrangements" between Britain and the Community. While not discouraging the Germans from exploring what De Gaulle may have in mind, the British doubt that anything acceptable to Paris would also be to London. The French may simply reply on a display of renewed interest in accelerated cooperation among the present Community members in order to ward off any German participation in contacts with the British that would exclude France.

Britain, meanwhile, has thus far apparently felt incapable of doing more than waiting to see how the efforts of the continentals will develop. [redacted] 25X1

UN TRADE AND DEVELOPMENT CONFERENCE OPENS IN NEW DELHI

The concern of the less-developed countries (LDCs) over their deteriorating terms of trade as well as the slackening of aid from the developed countries will probably be aired at the second United Nations conference on Trade and Development (UNCTAD), which opened yesterday in New Delhi and will run through 25 March. Although the attitude of the LDCs will probably be more realistic than at the first conference in 1964, there is little optimism that the conference will achieve much in the way of immediate results, in part because of the financial difficulties facing the major developed countries.

Despite their divergent interests, the LDCs will endeavor to present a common front toward the industrialized nations. UNCTAD Secretary General Prebisch has urged them to press for specific commitments from the developed countries on a system of general tariff preferences for LDC exports of manufactures and on the conclusion of international agreements to regulate trade in certain commodities. Demands for increased aid, including financing to supplement shortfalls in LDC export earnings, are also likely.

The West is agreed in principle to the granting of general preferences. Difficulties could arise, however, if the LDCs press for something more specific at this time because significant differences remain among the developed countries on how to carry out a preferential scheme.

The Communist countries--which also have been subjected to demands by the LDCs--probably hope to play down their own lack of a unified policy. They can be expected to reach for some propaganda benefit by pointing to Vietnam as detracting from the US aid effort. [redacted] 25X1

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MIDDLE EAST - AFRICA

Arab-Israeli tension continued to dominate events in the area last week, but new stresses appeared in the Persian Gulf and older problems elsewhere dragged on.

A heavy exchange of gunfire across the Suez Canal caused Egypt to suspend efforts to release the 15 cargo ships trapped in the canal since June. Israel previously had warned Cairo against an attempt even to check the condition of the canal in the north--a move which Israel probably believes would weaken its leverage on Egypt for face-to-face negotiations. Further international pressure is expected, principally from the UK but also from the USSR, to have the whole canal cleared to normal traffic.

Stresses in the Persian Gulf, anticipated eventually as a result of Britain's new "West of Suez" defense policy, have begun to appear already among the three major powers in the area--Iran, Saudi Arabia, and Kuwait. Tehran has evinced considerable irritation over Saudi support for Bahrain--which Iran publicly claims--and over alleged Kuwaiti references to the "Arabism" of the gulf. Riyadh has protested recent Iranian oil operations on the Saudi side of the gulf's median line.

In the Nigerian civil war, the renewed federal offensive is still making significant gains, but the Biafrans are apparently prepared to fight for a long time. A Biafran emissary is bringing back from London new peace proposals from the Commonwealth Secretariat, but prospects for early talks remain dim.

The Greek junta continues to strengthen its position internationally and at home. Most NATO and other countries have followed Turkey's lead in resuming diplomatic contacts with the regime. Officers who were sympathetic to the King's abortive coup have been retired, and some 50 university professors have been dismissed for disloyal activities. In a demonstration of self-confidence, the junta released 86 more political prisoners last week.

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CONCILIATORY MOOD PERVADES ELECTIONEERING IN CYPRUS

The rival Greek and Turkish Cypriot communities are preparing for the presidential elections on 25 February in an atmosphere considerably less menacing than has existed on Cyprus in some time. Neither community has apparently been strongly stirred by the other's moves.

In line with the 1960 constitution, Greek Cypriots will elect the president and Turkish Cypriots will elect the vice president in separate polls. President Makarios is most unlikely to have any opposition in his bid for a new "mandate" from the Greek Cypriot community. He has cooled a minor flare-up among some bishops who are critical of his apparent abandonment of the long-standing goal of enosis (union with Greece). Pockets of pro-enosis sentiment doubtless will remain, however, especially in the rural areas where the church has considerable influence. This will prevent any public announcement by Makarios that he has completely ruled out eventual enosis as a desirable goal.

Incumbent Vice President Kucuk likewise will run unopposed. An apparently more qualified but politically unknown candidate withdrew in favor of Kucuk, who is a symbol to Turkish Cypriots of their resistance to Greek hegemony on the island. Ankara also disapproved of any challenge to Kucuk because it might divide and weaken the Turkish community.

[redacted] 25X1

Makarios also may be considering new parliamentary elections. This maneuver would be somewhat more delicate for Makarios than the present presidential elections. In the 1960 parliamentary elections, Makarios allowed the Communists to run unopposed for five seats in Parliament in return for a Communist promise not to contest pro-Makarios candidates in other constituencies. The Communist Party is the best organized political group on Cyprus, however, and probably is capable of winning 20 percent or more of the vote. If they refused to cooperate again, the unity of the Greek Cypriot community as well as Makarios' own political position could be weakened.

Unless Makarios uses the presidential elections as a springboard for the "courageous decisions" he forecast in announcing them, the elections will be meaningless. His real motives still are unknown, but if he does not move further toward cooperation between the Greek and Turkish communities, he will be faced at some point with a fresh crisis. [redacted] 25X1

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ISRAEL SEEKS MORE MILITARY AIRCRAFT

Israeli officials are searching Western Europe and the US for fighter aircraft. Israel currently has about 210 jet fighters, only 52 of which are sophisticated Mirage IIIs, while the Arab nations now have about 675 jets, more than 250 of them late models.

To solve its fighter-bomber shortage, Tel Aviv has begun to take delivery of 48 US A-4 Skyhawks purchased before the war in June. Israel has requested additional A-4s and also has asked for 50 US F-4 Phantoms. The Israelis still hope to obtain delivery of 50 Mirage 5 interceptors from France, but De Gaulle has given no indication that he is about to lift his embargo on these aircraft.

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Another deal, involving the purchase of 12 F-86s from US surplus stocks through a Dutch arms dealer, was dropped when the US refused to grant an export license for the planes. An Israeli attempt to obtain quick delivery of Hawker Hunters from the UK failed. The British said that the aircraft would not be available.

The F-86s and the Hawker Hunters are in the same class with the Mystere interceptors presently in the Israeli inventory. None of these aircraft is a match for the MIG-21s or SU-7s being supplied to the Arabs, but will serve as stopgap hardware until better interceptors become available.

The Israelis have always been at a disadvantage as far as numbers of aircraft are concerned, but this deficiency is counterbalanced by the superior quality of Israel's air staff, pilots, and technicians. Although the Arabs' collective jet fighter inventory is now roughly three times that of Israel, the Israeli force retains the qualitative superiority that quickly enabled it to attain decisive air supremacy in the June war.

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RECENT GOVERNMENT REORGANIZATION IN EGYPT

Recent changes in the Egyptian Government appear to represent a return to a greater degree of normalcy following the trauma of the military defeat last summer.

On 24 January, Ali Sabri was reappointed secretary general of Egypt's only legal political organization, the Arab Socialist Union (ASU). Sabri had occupied the secretary general slot until shortly after the conflict with Israel, at which time President Nasir took over that post as well as the position of prime minister, a title he officially still holds. Sabri's reappointment relieves Nasir of the chore of heading the practically moribund ASU.

In another change, the commander in chief of the armed forces, General Muhammed Fawzi, was given added duties as the minister of war. This position also has been sharply upgraded to give the minister greater control over the entire military effort and a more direct line to the President. These new duties would appear to give Fawzi increased stature within the government and reflect Nasir's intention to continue his own efforts to improve the efficiency of the Egyptian armed forces.

In another development, the public trial of those accused of conspiracy in the August plot to overthrow the government began on 22 January as scheduled. Fifty-four defendants--mostly from the military, and including Nasir's former chief of intelligence, Salah Nasir--are under indictment for complicity in the affair. The charge against the accused recently was changed from attempting to seize control of the Armed Forces General Command to attempting to overthrow the system of government. Among the reasons for the alteration of the charge may be the discovery of more evidence than anticipated, a more secure feeling on Nasir's part that allows him to make stronger charges, and a stiffer attitude toward the conspirators. [redacted] 25X1

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WESTERN HEMISPHERE

The election of a secretary general of the Organization of American States (OAS) continued to be the subject of much diplomatic maneuvering among Latin Americans last week.

Central American foreign ministers met in Panama to consider their position for the fifth ballot, and the Council of the OAS met a few days later to decide whether the vote should be held on 12 February as scheduled. The council decided to go ahead as planned. None of the present three candidates appears assured of a clear-cut victory, and another impasse or even a close victory will further tarnish the image of the organization.

In Guatemala, guerrilla activity may soon increase. There are reports that Communist factions have agreed to join forces and deploy away from the capital. Right-wing civilian commando units, supported by the army, are also reported to be operating again in the northeast.

Violence is also likely in Panama. 25X1

25X1 The lame-duck status 25X1
of the administration was underscored when the President failed to ask for special powers during the eight-month legislative recess that began on 30 January. No legislative initiative--such as ratification of the canal treaty drafts--can be taken until Robles' term ends on 30 September.

In Chile, President Frei has withdrawn his controversial wage-readjustment bill in the face of sure defeat in the Senate, but plans for submitting a revised bill are already under way. The original bill was designed to hold down inflation and create 25X1
investment funds by paying part of a wage increase in government bonds. Frei probably has the votes to block the opposition's bill, which would divert a portion of copper earnings into the treasury to finance paying the whole increase in cash.

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ARGENTINE MILITARY IMPATIENT WITH ECONOMIC PROGRESS

Argentina's top military leaders are again showing impatience with the slow progress of the government's economic reform program, despite some substantial successes in 1967.

Popular dissatisfaction with the continuing rise in the cost of living and with government restrictions on wage increases is causing considerable reaction among some military leaders. The generals, who brought the present government to power and feel responsible for its success or failure, are sensitive to criticism of it.

President Ongania's regime has made impressive gains in reforming the Argentine economy. Since the beginning of the economic reform program in March 1967, the budget deficit has been significantly reduced, the peso has been maintained at a stable rate, and foreign reserves have more than quadrupled. In addition, government operations have been streamlined. The gains have impressed both national and foreign bankers and financiers, but have had little positive impact on the Argentine public.

The commanders of the three military services recently told Ongania that "tangible" gains would have to be scored by March or changes might have to be made in the cabinet and in government policies. The military chiefs reportedly even hinted that Ongania himself might have to be replaced.

Early in 1967, these same military chiefs went through a similar phase of grumbling and impatience. They were mollified then by cabinet changes that brought in Economy Minister Krieger Vasena, the architect of the current economic program. The government is committed to Krieger Vasena's program, and any show of vacillation could undercut the entire stabilization effort. In particular, Ongania cannot do anything "spectacular" to improve wages.

The situation is complicated by an apparent cooling in relations between Ongania and army commander in chief General Alsogaray, who up to now has been considered one of Ongania's strongest backers in following the Krieger Vasena program. This will almost certainly be Alsogaray's last year as army chief, however, and he can afford to be somewhat more outspoken. In seeking a more popular government policy, Alsogaray may be making an effort to ensure his own political influence after he steps down. He has even gone so far as to maintain

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contacts with General Candido Lopez, who was retired recently for his attempts to form an opposition movement.

Despite these rumblings, Ongania's position remains secure. Nevertheless, the continued pressure against the economic reform program and the somewhat more independent line of the military leaders may force some changes in government policies.

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BRAZILIAN GOVERNMENT REACTS STRONGLY TO OPPOSITION CRITIC

President Costa e Silva has reportedly decided to take action against perennial oppositionist Carlos Lacerda, but has not yet decided whether to go as far as to strip him of his political rights as hard-line military elements advocate.

The government reacted strongly last week to counter a suspected plot by Lacerda. Military and security forces were put on alert before Lacerda delivered a highly touted and vituperatively antiregime speech in Sao Paulo on 28 January.

The alert set off an avalanche of rumors that military hard liners were attempting to force the President to crack down on Lacerda. The speech passed without incident and by 29 January the alert was over. Press and congressional reaction indicated widespread puzzlement over the administration's overreaction and a belief that the government had made itself appear more than a little foolish.

Lacerda has been a thorn in the side of every Brazilian

Lacerda

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president for more than 20 years. Although he was a key civilian leader in the 1964 revolution that ousted leftist president Goulart, he soon became disenchanted with the military government and formed an alliance with former presidents Kubitschek and Goulart, both of whom lost their political rights in 1964.

Lacerda's attacks on the government as a dictatorship by a minority group of military "adventurists" have stung the Brazilian military--which is not used to being goaded. He has accused the administration of betraying the country to foreign--specifically US--interests, has compared it to the regimes of Hitler and Mussolini, and has promised to produce proof of corruption at high levels. His blasts have struck a responsive chord with many Brazilians, particularly among leaders of the only legal opposition party.

If the government now gives in to hard-line pressure and prosecutes Lacerda under provisions of the tough new national security law, a considerable press and public hue and cry can be expected. Although such action would have strong backing from the military--the ultimate arbiters of Brazilian stability--it would be widely interpreted as a sign that the administration lacks self-confidence. It would also play into Lacerda's hands by making him a political martyr. Further, it would discredit Costa e Silva's much-publicized efforts to "humanize" the revolution begun by his predecessor. 25X1

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CUBA WARNS POLITICAL MALCONTENTS

The Communist Party mini-purge announced last weekend in Havana, though directed against potential political malcontents in Cuba, will be taken by Moscow as another affront. Moreover, it confirms to any latent or actual doubter within or outside Cuba that Fidel Castro is still thoroughly in control.

According to the official party newspaper, Granma, Raul Castro told the central committee members last week that those purged supported the Soviet line on all issues that have caused the strain in relations between Moscow and Havana. According to the newspaper, these issues include Fidel Castro's emphasis on "armed struggle" in Latin America, his attack on Soviet credit and technical assistance to Latin American "oligarchies," and his opposition to the USSR's "unilateral" withdrawal of rockets from Cuba during the missile crisis of October 1962. Reportedly, members of this "microfaction" contacted Soviet and some East European officials in the hope of getting them to prevail on Castro to abandon his independent line.

The leader of the antiparty group is Anibal Escalante, a two-time loser who was also purged in 1962. The errors committed by the only other prominent persons charged--central committee members Ramon Calcines and Jose Matar--appear to be that they consulted with Escalante while drafting planning papers or status reports. The central committee decided to expel both Calcines and Matar from the committee, and to purge only Calcines from the party. Escalante and the other eight low-level members of the "microfaction," however, are to be tried by Revolutionary Tribunals.

Although some "old guard" Communists are among the antiparty group, it appears to comprise a cross section of Cuban society, and the central committee's actions should not be construed as a purge of old pro-Soviet Cuban Communists. "Old guard" Communists such as Carlos Rafael Rodriguez and Blas Roca are not affected at all.

The purge of this generally low-level group, which posed no serious threat to the regime, is a dramatic warning to other malcontents that opposition to Castro's extremist policies will not be tolerated. In addition, it makes clear to Moscow that Castro will continue Cuba's active support for armed revolution.

The special central committee meeting also issued resolutions proclaiming Cuba's solidarity with

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North Vietnam and support for North Korea in its confrontation with the US. In addition, it ratified the political bureau's decision not to send a delegation to the scheduled international Communist conference at Budapest. Moscow's first response--a brief TASS report of the proceedings in Havana--ignores the provocative implications of Raul Castro's allegations. Whatever their private reaction, the Russians will go some distance to avoid doing further damage to their relations with Havana by engaging in a public exchange of insults.

Although the Soviets are in a position to apply economic pressures against the Cubans, they are unlikely to jeopardize their stake in Cuba by resorting to heavy-handed reprisals. Signs of their intentions should appear with the publication of the new Soviet-Cuban trade agreement a draft of which is now near completion.

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DOMINICAN SITUATION CONTINUES UNSETTLED

Threats of violence from the left, a Communist victory in student elections, and President Balaguer's decision to allow the return of exiled General Wessin y Wessin are likely to keep the political pot simmering.

On 20 and 24 January, the secretary general of the left-of-center Dominican Revolutionary Party accused the government of condoning rightist repression of the left. He charged that a price tag had been put on his head by an unnamed US intelligence agent and warned that the party would retaliate in kind if a member of the party's national executive committee or any "revolutionary" were murdered.

Leaders of the Marxist-Leninist Dominican Popular Movement, speaking to a labor group on 20 January, reportedly said the party has adopted a political line of violence similar to that of the Guatemalan revolutionaries. The spokesmen stressed that their party must strike back against "repression," and made it clear that US citizens would be included as targets.

Although an increase in violence has been apparent during the past few months, only a few incidents appear to have political overtones and there is no evidence of a calculated campaign of violence by the right or left. Acts of terrorism by the left, however, probably would be met by

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ruthless counterterrorism from the right. In such an event, the possible involvement of US citizens cannot be ruled out.

The Communist victory in student elections at the Autonomous University of Santo Domingo (UASD) on 29 January does not augur well for future university-government relations. The election will probably reinforce the position of the leftist UASD authorities in their present standoff with President Balaguer over the university budget. It may also bring increased pressure on Balaguer by his conservative civilian and military supporters to curb Communist influence on the campus.

Meanwhile, the legal recognition of the Democratic Quisqueyan Party (PQD) and Wessin's declaration as the party's 1970 presidential candidate are pressuring Balaguer to permit Wessin's return. At a press conference on 24 January, Balaguer said Wessin would be allowed to return at an "opportune moment," the timing of which depended on "circumstances." The President, as well as many of his security advisers, probably views Wessin and the PQD as a threat to the government.

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Leftist demands for the return of exiled former "constitutionalist" officers--particularly Colonel Caamano, whose whereabouts is still unknown--will probably follow Wessin's return to the country.

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INCIDENTS MAR PARAGUAYAN ELECTION CAMPAIGN

With Paraguayan national elections little more than a week away, campaign incidents are testing the spirit of coexistence among the participating parties.

The worst problems appear to have involved scheduling of opposition election rallies. In several cases, the Radical Liberals have made arrangements to use a hall only to find that it has been pre-empted by President Stroessner's Colorados.

Early in January two prominent former exiles, Carlos Pastore and Colonel Alfredo Ramos, were officially disqualified as opposition candidates for the Senate on the Radical Liberal ticket. This action was probably ordered by President Stroessner, on the basis of their long records as leaders in anti-Stroessner plots and armed incursions. The party has reluctantly submitted a new slate, but has protested the arrest of several party members.

Recently, a number of Febreristas in Concepcion were reportedly arrested and roughed up by the police. Party leaders have protested, but not very strongly in view of the fact that Febrerista youth had been painting antiregime slogans in the city prior to Stroessner's arrival for a campaign rally.

Despite the recent political arrests and reported acts of violence, the government still appears resolved to hold the most honest election in Paraguayan history. The minister of interior is making a sincere effort to ensure that rural authorities act responsibly during the election, and has threatened punishment for those that do not.

In spite of the difficulties and growing animosities, it seems that all four parties will participate in the election, with Stroessner and his Colorados of course emerging as the winners.

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